Service Date: October 16, 1984

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Montana Public Service Commission's Investigation of Electric Avoided Cost Rates	) UTILITY DIVISION) DOCKET NO. 84.10.64) ORDER NO. 5091

NOTICE OF COMMISSION ACTION AND ORDER INVITING COMMENTS

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INTRODUCTION

To date the Commission has initiated two dockets investigating issues related to electric avoided cost rates.

Due to apparent rapidly changing market conditions for electric power in the region, the Commission finds that, in the interest of efficient resource allocation, a third investigation may be warranted.

Precisely what sort of proceeding(s) and what issues should be investigated is discussed below.

DISCUSSION

In recent rate cases, and elsewhere, the Commission has become aware of changes in regional market conditions for the sale and purchase of electric power. The recent Montana Power Company (MPC) rate case [Docket No.83.9.67] revealed the possible availability of electric power, at costs less than the current MPC long-term avoided cost rates (see, for example, Findings of Fact 134, 194, 197 and 198 of this Commission's Order No. 5051c). Pacific Power and Light

(PP&L), on the other hand, has recently negotiated a long-term sale of firm power to Black Hills Power and Light, but at rates that probably do not equal the long-term avoided cost rate tariffed by this Commission.

Other indicators of the market value of electric power, which, in turn, are possible candidates for avoided cost rates, include Bonneville Power Administration's new resource or 7(F) rate (available to MPC and PP&L), Manitoba Hydropower sales rates (possibly available to Montana Dakota Utilities Co.) or the MPC's recent Electric Conservation Purchase (ECP) Plan, which indicates avoided cost rates on the Order of 3. 7¢/kwh (apparently levelized) in year 1984.

In light of the above evidence, the Commission believes that the current long-term avoided cost rates may not represent actual avoided costs. In the case of MPC and PP&L, the current long-term rates are based, in part, on the costs of Colstrip 3 and 4. In the case of MDU, a different coal-fired plant is, by and large, the basis of its current long-term rates.

Recent correspondence to the Commission from MPC and PP&L indicates that each utility faces signing QF contracts for substantial quantities of power (based on the current long-term avoided cost rates) . In the case of MPC, the range is very roughly 30 to 300 MWs. For PP&L, the upper limit actually exceeds the Company's Montana load.

PROCEDURAL OPTIONS AND ISSUES

From the above evidence it appears clear to this Commission that some type of investigation is needed. The issues that should be investigated are related to, but not limited to, the level of long-term rates. [Two recent avoided cost dockets address the issues of contract security provisions (Docket No. 84.9.51 requesting a declaratory ruling by this Commission) and interstate allocation of avoided costs (Docket No. 84.8.46 -- a complaint docket) incurred in Montana.]

The Commission hereby invites comments from each utility, and any interested party, on two broad issues. The first concerns the current long-term avoided cost rates. In this area the Commission believes two fundamental questions must be answered. Is the disparity between the current tariffed long-term avoided cost rates (the basis of the levelized rates -- the fully escalating base rates) and avoided costs based on some other proxy (e. g., PROMOD short-run marginal costs, BPA's 7(f) regional market value, conservation purchases, competitive bidding process, etc.) sufficient to warrant a suspension of the tariffed long-term rates? Should the suspension be on an interim basis (per 69-3-304, MCA), or for the duration of the Commission's investigation (e.g., 9 months)?

The second is, what sort of administrative procedure, if any, should be set in motion to investigate the situation? Some options include: (1) a separate docket for each utility, or (2) a generic docket (like Docket No. 83.1. 2) that combines all utilities. In addition, should a rulemaking proceeding take place at the same time?

The Commission would reiterate that its primary objective, from any resulting administration proceeding, is to set avoided cost rates as precisely as possible for each of MPC, MDU and PP&L. At this point the Commission has no idea of what proxy will be used to compute each utility's avoided cost rates. The Commission's final decisions will be based on testimony of the various parties from the resulting administrative proceeding. The Commission would also emphasize that any issue may be raised by interested intervenors or the utilities.

All parties commenting on the above and related issues should file their comments with the Commission within 30 days.

CONCLUSIONS OF LAW

1. The Commission has the statutory authority to supervise, regulate and control public utilities. 69-3-102 MCA.

ORDER

1. All interested parties have thirty (30) days to respond to the issues raised in this order.

2. The Commission will provide a copy of this order to the Montana Power Company, Montana Dakota Utilities, Pacific Power and Light and the service list to Docket No. 83.1.2. Each utility must, in turn, provide a copy of this order to each qualifying facility that has contacted the utility in the past two years.

DONE AND DATED this 10th day of October, 1984 by a vote of 4 -0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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THOMAS J. SCHNEIDER, Chairman

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HOWARD L. ELLIS, Commissioner

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CLYDE JARVIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary
(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten days. See 38.2 .4806, ARM.